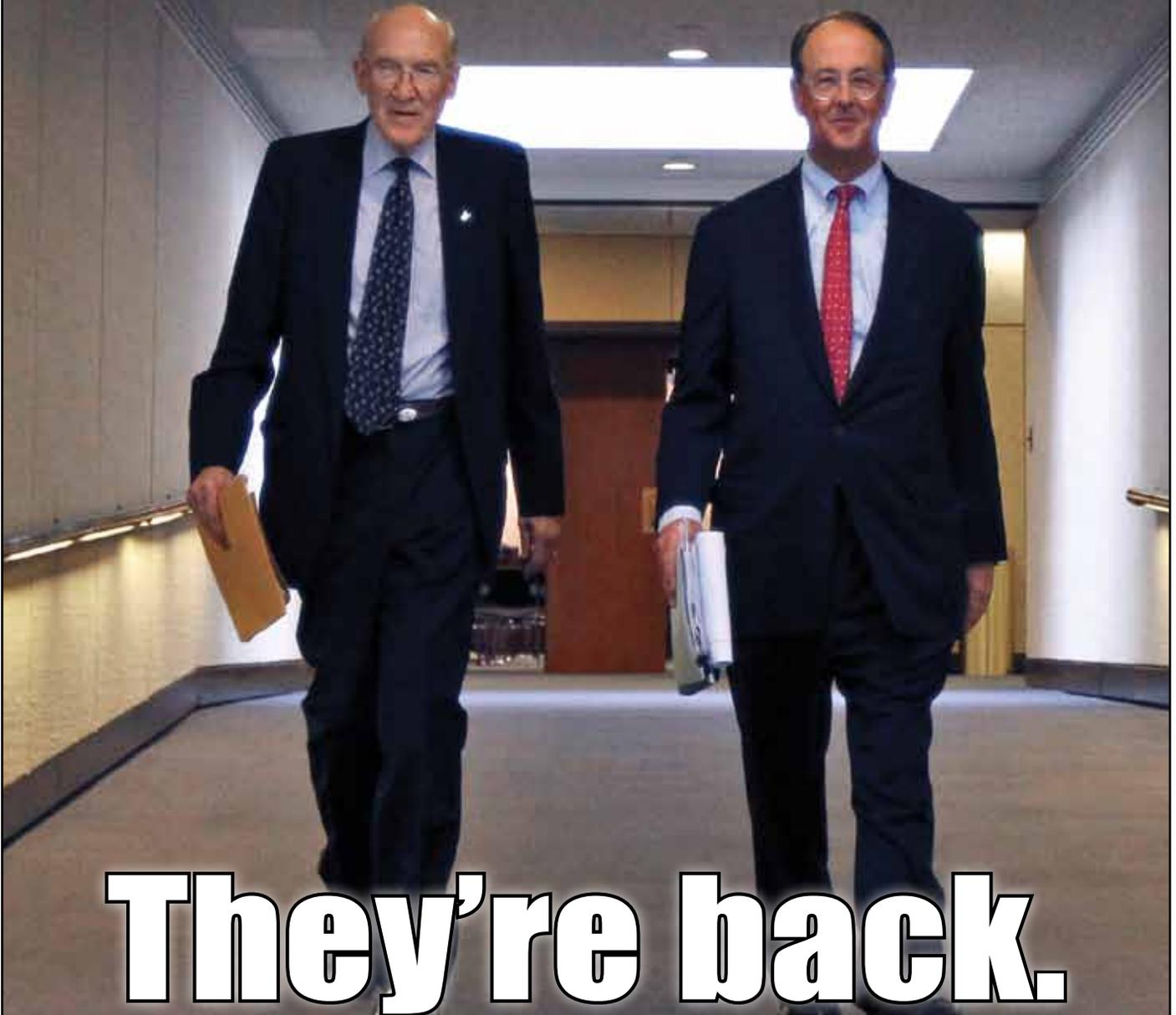


Luis Fortuño on taming budget deficits
and winning the Hispanic vote



The Ripoon Forum

Summer 2012
Volume 46, No. 3



They're back.

**At a time when most reports in Washington are gathering dust,
the Simpson-Bowles report is gathering steam.**

THE MEDICARE CHALLENGE

What it Means For Our Country, What It Means for Our Future



What is the Medicare Challenge?

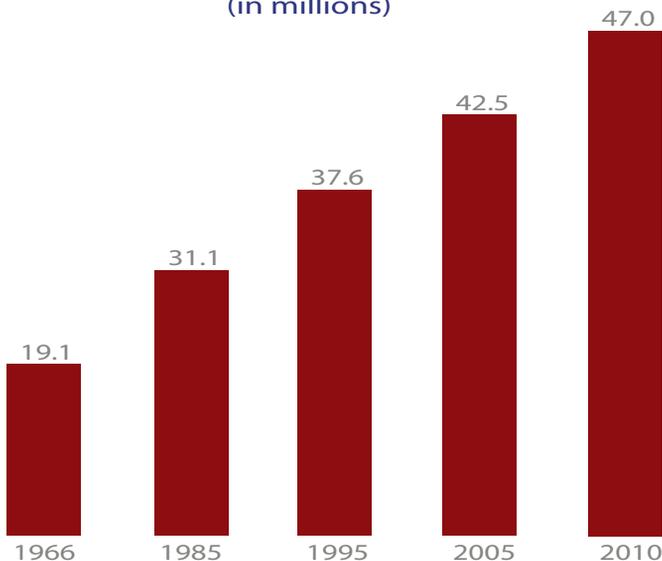
Medicare is a vital healthcare lifeline for millions of older Americans and their families. But the number of active workers paying into Medicare isn't keeping up with the rising number of beneficiaries. Also, we are not as healthy as we should be, and our healthcare costs are much greater than anticipated. These costs are quickly outpacing the money coming in.



Why Does it Matter?

Each year, more of our economy is devoted to Medicare spending that exceeds revenues. Without change, current and future Medicare beneficiaries won't have access to high-quality, affordable healthcare. Without change, we cannot ensure an environment for innovation, economic growth and jobs. And, without change, the standard of living for our children and grandchildren will be compromised.

MEDICARE ENROLLMENT, 1966-2010
(in millions)



What Can We Do?

A national focus on achieving a sustainable Medicare program begins with acknowledging the need for change. As the baby boom generation retires and uses more healthcare services, the demands on the Medicare program will far outpace their contributions to the Medicare Trust Fund. We have to make changes to protect and strengthen this valuable program and ensure access to high-quality, affordable healthcare.

The Ripon Forum

*"Ideas that matter,
since 1965."*

Volume 46, Number 3

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In publishing this magazine, The Ripon Society seeks to provide a forum for fresh ideas, well-researched proposals, and for a spirit of criticism, innovation, and independent thinking within the Republican Party.



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In this Edition

Shortly after the November 2008 election, I mentioned to a few friends that I thought one of the first things Barack Obama was going to do after being sworn in as President was call his national security team into the Oval Office and tell them to: “Get bin Laden.”

With the 2012 election less than 100 days away, perhaps it’s a good time to make another prediction -- if Barack Obama wins a second term as President, one of the first things he’s going to do is call Alan Simpson and Erskine Bowles into the Oval Office and tell them to: “Get it done.”

Simpson and Bowles, of course, are the Co-Chairs of the National Commission on Fiscal Responsibility and Reform. Otherwise known as the Simpson-Bowles Commission, it is the Commission that Obama himself created. It’s also the Commission that the President effectively abandoned after they did exactly what he instructed them to do – that is, develop a plan to get spending under control and reduce the national debt.

The fact that the President declined to endorse their recommendations, which they released in December of 2010, should surprise no one. As Senator Simpson explains in this latest edition of the FORUM, “he knew when he touched entitlement reform – which we do -- his base would have ripped him to shreds.” As for the opposition, Simpson continued, “anything he would have voted for, the Republicans would have come together and said, ‘Vote against it.’” Without the President’s endorsement, the plan was dead in the water.

Amazingly, 18 months later, the Simpson-Bowles plan has been resurrected, and has become something of a symbol – a symbol not only of the tough choices that need to be made to get the Nation’s fiscal house in order, but of what can be accomplished when Republicans and Democrats lay down their political arms and come together for the common good. It is also, as Simpson puts it, “the only game in town.” Tom Coburn supports it. Nancy Pelosi supports it. If he wins a second term, I predict President Obama, electorally liberated and politically unencumbered, will support it, too.

What about Mitt Romney? In Paul Ryan, he has selected as his running mate a man who not only served on the Simpson-Bowles Commission, but voted against the final set of recommendations because they didn’t go far enough. Ryan has authored his own budget that would achieve that goal. The House of Representatives approved the Ryan budget on a mostly party line vote earlier this year. No Democrats supported it and 10 Republicans opposed it. Now, the Romney campaign apparently can’t decide whether it wants to run on the budget or run away from it.

Here’s another idea -- rather than playing defense on the Ryan budget, Governor Romney should go on the offense by embracing the Simpson-Bowles plan. Conservatives would no doubt howl at the idea, objecting, among other things, to the fact that the plan raises revenue and caps federal spending at 23 percent of the GDP, which many feel is too high. But these objections ignore the fact that Simpson-Bowles remains something of a work in progress; in fact, negotiations with a group of nearly 50 bipartisan Senators are continuing to this day.

More importantly, it also ignores the fact that embracing Simpson-Bowles would send a powerful signal to two important groups. To the business community, it would send a signal that America may elect a President who supports a credible and politically viable plan to address the Nation’s debt crisis – which just about every expert says is needed to calm global markets and ease economic fears.

To political independents, embracing Simpson-Bowles would send a signal that Mitt Romney believes in bipartisanship and is willing to work across party lines to address the greatest fiscal challenge of our time. Given the vitriol of this campaign season, that is something independents would welcome, and most Americans would embrace.

Lou Zickar
Editor
THE RIPON FORUM

They're back.

At a time when most reports in Washington are gathering dust, the Simpson-Bowles report is gathering steam.



Q&A with ALAN SIMPSON

"This baby is the only game in town."

Alan Simpson has worn many hats in his career. From soldier in the United States Army to Member of the United States Senate to Director of the Institute of Politics at Harvard, he has devoted his life to serving his country and serving others. But perhaps his greatest legacy will be the job he has held the past few years.

As Co-Chairman of the National Commission on Fiscal Responsibility and Reform, Simpson has helped bring America's growing debt crisis to the forefront of the policy debate. Along with his Co-Chairman, Erskine Bowles, he has also put forward a bold plan to reduce the debt and get government spending under control. The plan was released in December 2010.

The fact that the Nation is still talking about it 18 months after the fact is a testament not just to the plan's content, but to the plan's coauthor. Indeed, with his mixture of straight-talk, intellect, and humor, Alan Simpson has done for reducing the debt what Ross Perot did for reducing the deficit in 1992 – made it a national priority.

THE FORUM spoke with Senator Simpson about his efforts in this regard and the state of politics, policy, and humor in Washington, DC.

FORUM: At a time when reports in Washington usually gather dust, the Simpson-Bowles report is once again getting attention and seems to be gathering steam. Why do you think that is?

SIMPSON: Well, it's the only one that irritates everybody, and it's the only one that will work because we're very specific. We spent seven months at it, and received a vote of five Democrats and five Republicans and one independent. I mean, how can you do any better than that in the tortured system that's going on out there now? And you have a range, from Dick Durbin -- who's a hell of a good guy and is as partisan as can be -- to Tom

Coburn, who's a hell of a good guy and partisan as he can be.

We're doing it for our children. We're not just watching people do it to get reelected. There's so much B.S. and mush. Any candidate that gets on their hind legs and says, "We can get this done without touching precious Medicare, precious Medicaid, precious Social Security, and precious defense" ... give them a horse laugh. They're a fake!

FORUM: Assuming nothing gets done on the issue between now and the election, how important is it that the next President – whether it's Barack Obama or Mitt Romney – endorse your plan or something very similar?

SIMPSON: Nobody's going to do anything before the election. They all worship the God of reelection. There will be nothing concrete, or even a semblance of clearness or authenticity as to how you restore the solvency of Social Security -- which we were very clear about. We're not hurting young people, old people, or throwing bed pans

out of the hospices.

There's everything in there to protect the most vulnerable, from a five percent bump up for people 80-85 to a minimum benefit that guarantees full-career workers are paid at least 125% of poverty. You can't even raise the retirement age to sixty-eight by the year 2050 without the AARP mumbling that poor old seniors will never figure it out.

It's just going to happen, and that's where the markets will come in. And they don't care who's running for President. They don't care about what party is running the shop. They're interested in their money, and they're going to say: "You obviously are a dysfunctional government. Therefore, you've done nothing. Therefore, we want more money for our money." Then interest rates will go up, and inflation will go up. And the guy that gets hurt the worst will be "the little guy." What hypocrisy!

FORUM: Why do you think President Obama declined to endorse your plan when it was released in December of 2010? The Simpson-Bowles Commission, after all, was his idea.

SIMPSON: It's easy to see. He was in political mode, and he knew when he touched entitlement reform – which we do -- his base would have ripped him to shreds. "How could you do this to poor old seniors? How could you do something with the entitlements?" They would have been shrieking and crying.

And at that stage of the political wars, anything he would have voted for, the Republicans would have come together and said, "Vote against it."

FORUM: A version of the Simpson-Bowles plan received 38 votes when it was voted on in the House earlier this year. Does this mean the plan is more popular with the public than politicians? If so, how do you get the politicians to follow the lead of the people and support the plan as well?

SIMPSON: We counseled them not to bring it to a vote because we didn't yet have it in legislative language. Now we do have it in legislative language. You have about 47 U.S. Senators mucking around in it from both parties. You have over 100 House members from both parties looking at it, looking at the language, talking about it. That's going on right now. The public isn't aware of it, but that's what's going on.

This baby is the only game in town. There's nowhere else to go. You can go to us or parts of Domenici-Rivlin or the Gang of Six plan or the work of the Super Committee and Obama-Boehner. But the framework has got to be along the lines of what Erskine and I and nine other brave souls recommended in 2010 – cuts to wasteful spending in defense and non-defense, health care cost controls, Social Security solvency measures, and tax reform that lowers rates but gets more revenues.

Some people have asked us to come back for a hearing. Erskine and I say, "For what? We're not coming back for a hearing just to watch people come up to us and say, "Save us from ourselves!"

And that's what they do. We say "Save yourselves. We gave you the blueprint. If we haven't pissed every group off, tell us the name of your group and we'll piss them off!"

FORUM: To be even more specific, how do you get Republicans to sign on in support of a tax increase when they signed a pledge saying they would oppose that very thing?

SIMPSON: The first thing, anybody who would sign a pledge in '86 or '88 when unemployment was 3.8% and inflation was near nothing and everything was different, should really never have sold their souls for something somewhere down the road. And if they did, they're really pretty poor legislators in my mind to do that.

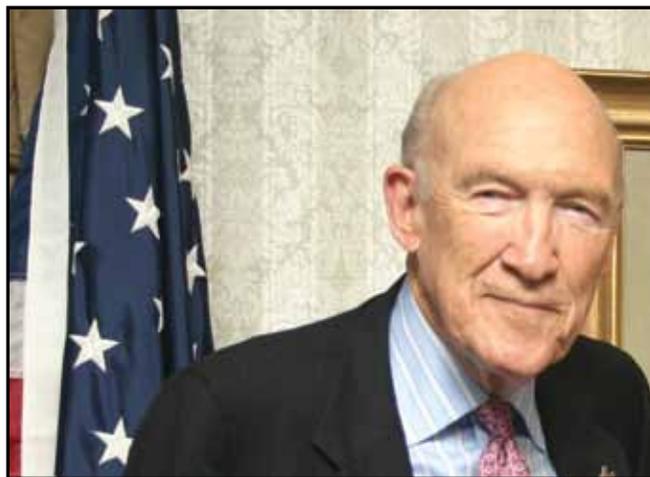
Things change. Lincoln himself made a great quote. Douglas was nailing him for changing his mind, and he said something like – "If I didn't have the ability to change my mind when circumstances changed that are critical to the United States of America, I shouldn't be in public life."

Anyway, Grover [Norquist] will wander the Earth in his white robes, but he's losing strength. But the real thing is you don't have to raise taxes! You just go into that tax code and begin to pull out \$1.1 trillion of tax expenditures, most of which are used by only 20% of the American people. You pull those out, and that's where you get your bucks.

So dear old Tom Coburn stuck in an amendment to take six billion bucks out of ethanol subsidies, which passed the Senate. Grover called that a tax increase. If that's the kind of ridiculous intellect we have to deal with, you ain't ever going to get out this box.

FORUM: Why has politics become so uncompromising in Washington, DC?

SIMPSON: Well, people run against Washington. They say, "I want to go to Washington to change that culture of adulterers, and moneychangers, and sons of bitches, and people who do nothing. Send me to Washington!" Well, it sounds like you're sending them in – like St. George into the dragon's mouth! So Washington has become a curse word. Yet they get there, and the first thing they do is try to figure out how to "do an earmark" or how to get something for the folks back home because they're told to go get that, but



**This baby is the only game in town.
There's nowhere else to go.**

also to complain about the government, and you've got to do both of those with the same tongue in your mouth. That's what constituents tell them to do, and those days are pretty well over.

Then you've got a certain group of 82 people currently who didn't go there just to limit government – they went there to stop government. So hang on tight. It didn't arrive overnight. It's not that the government in Washington doesn't represent the American people, because all you have to do is look at your school board fighting the same way or the city council scrapping the same way or the county commissioners scrapping the same way. What's new?

FORUM: How important is humor in politics and how do we inject more of it into today's political debate?

SIMPSON: Nowadays, if you use humor, somebody will think you're a silly-ass. They'll say,

“Boy, I heard Simpson doing this, or maybe Pat Roberts, or maybe Ted Kennedy. He's not paying attention. He's a silly-ass.” Well, let me tell you. I love to have people do that with me, because you pull them into the net and then drive a truck right over them.

My mother said, “Humor is the universal solvent against the abrasive elements of life.” You don't find it in Washington anymore. And if you do find it, then this person is supposedly not taking things seriously. What a total error in assessment of human beings.

Humor is critical, and there's none there now. It's now how “to get” the other guy. And now, they get the guys in their own party. I mean, if they don't like something, they'll nail the guy who's chairman of their own committee or the chairman of the other committee.

They simply don't like each other, so they won't have the hearings that'll make the country work. It's nuts. **RF**

My mother said, “Humor is the universal solvent against the abrasive elements of life.” You don't find it in Washington anymore.

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The Moment of Truth... Once Again

ED LORENZEN

When the President announced the creation of the National Commission on Fiscal Responsibility and Reform in February of 2010, the debt was an issue that was barely on the radar screen.

The Commission was created with little fanfare and low expectations about what it could accomplish. Although I joined the staff of the Fiscal Commission with the optimism befitting the Chicago Cubs fan that I am, my twenty years of experience working on fiscal policy as a Congressional staffer told me that the prospects for success were about the same as a World Championship for the Cubs.

Yet not only did the Commission put forward a plan taking bold steps to reduce the deficit by \$4 trillion over the next decade that won the support of 11 out of 18 of our commissioners – 5 Republicans, 5 Democrats, and 1 Independent – it helped elevate the national debt to the top of the national agenda. The Simpson-Bowles plan outlined in the report has become the “gold standard” for fiscal plans and is widely cited by policymakers, business leaders, press and the public as the model for what needs to be done. *(For the plan’s key highlights, see the box on the opposite page.)*

How did a Commission that was given so little chance of success come to have such an impact on the policy debate in Washington and across the country? There are many answers to that question, including a much greater awareness and concern about the deficit, but the reason that the plan has had such staying power is that

it responds to the public desire for leaders in Washington to rise above petty politics to come together to reach principled compromises on the challenges facing the nation. Above all, they want their leaders to put the national interest ahead of partisan interests and special interests.

It is true that many people and even lawmakers who express support for the Simpson-Bowles plan don’t know everything that is in the plan. But they know that it is a plan big enough to actually solve the problem, that it takes on sacred cows across the budget and asks everyone to contribute to the solution and that it is a bipartisan plan that provides a path to actually get something done.

As I have worked with Al Simpson and Erskine Bowles over the last two years talking about the plan, I have heard a consistent refrain from people expressing appreciation for their work – the Simpson-Bowles plan may not be their ideal approach to dealing with the debt and they don’t like everything in it but they recognize that this is a problem that needs to be addressed and that solving it will require everyone to accept things they don’t like.

The report, entitled “The Moment of Truth,” laid out for the public and policymakers the magnitude of the problem, the urgency of action to deal with it, and the tough choices that will be necessary in simple,

stark language. The report put forward a comprehensive fiscal plan that included over sixty specific recommendations for reforms of spending programs and the tax code. But more



...the reason that the plan has had such staying power is that it responds to the public desire for leaders in Washington to rise above petty politics to come together to reach principled compromises on the challenges facing the nation.

Highlights of the Fiscal Commission Plan

Summary:

- Nearly \$4 trillion in deficit reduction by the end of the decade, more than any effort in history.
- Reduces the deficit to 2.3% of GDP by 2015 (2.4% excluding Social Security reform), exceeding President's goal of primary balance (about 3% of GDP).
- Stabilizes debt by 2014 and reduces debt to 60% of GDP by 2023 and 40% by 2035.
- Balances the primary budget beginning in 2014, brings down the debt as a share of the economy thereafter, and balances the budget completely by 2035.
- Takes a balanced approach to deficit reduction, with a two to one ratio of spending reductions to revenue increases (three to one if reductions in spending on interest are counted).
- Applies discipline to all parts of the budget and goes after every sacred cow, while protecting the most vulnerable and prioritizing high value investments in education, infrastructure, and Research and Development.
- Recommends a tax reform framework which would help rid the tax code of the over \$1 trillion in spending in form of so called "tax expenditures," while dramatically bringing down rates.
- Caps revenue at 21% of GDP and gets spending below 22% and eventually to 21%. Ensures that any new revenues go to debt reduction, not new spending
- Ensures lasting Social Security solvency through progressive changes to benefits and revenues, preventing the projected 22% across the board benefit cuts expected to come in 2037 and reducing elderly poverty.

Major Elements:

- Discretionary Spending Cuts: Imposes tough discretionary spending caps to force budget discipline. Recommends significant cuts in both security and non-security spending by cutting low-priority programs and streamlining government operations. Offers more than \$50 billion in immediate cuts to lead by example, and a total of \$200 billion per year in illustrative savings.
- Comprehensive Tax Reform: Sharply reduces rates, broadens the base, simplifies the tax code, and reduces the deficit by reducing the many "tax expenditures" – another name for spending through the tax code. Reforms corporate taxes to make America more competitive, and cap revenue to avoid excessive taxation.
- Health Care Cost Containment: Includes a strict budget of GDP + 1% for health spending along with specific medium-term reductions. Replaces the phantom savings from scheduled Medicare reimbursement cuts that will never materialize and those from a new long-term care program that is unsustainable with real, common-sense reforms to physician payments, rationalizing cost-sharing requirements, malpractice reform, acceleration of successful payment reforms, increased prescription drug discounts, reductions in government-subsidized medical education, and other sources.
- Mandatory Savings: Cuts agriculture subsidies and modernizes military and civil service retirement systems, while reforming student loan programs and putting the Pension Benefit Guarantee Corporation on a sustainable path.
- Social Security Reforms to Ensure Long-Term Solvency and Reduce Poverty: Ensures sustainable solvency for the next 75 years while reducing poverty among seniors. Reforms Social Security for its own sake, not for deficit reduction.
- Process Changes: Reforms the budget process to ensure the debt remains on a stable path, spending stays under control, inflation is measured accurately, and taxpayer dollars go where they belong.

(Note: Savings totals and deficit and debt levels listed above are quoted as they appeared in the Fiscal Commission report, published December 2010.)

In Total:

- The Fiscal Commission plan would save nearly \$4 trillion over the next decade – more than any effort in history.

Source: Moment of Truth Project

important than any of the specific options in the plan is that the Commission's report laid the foundation for an honest dialogue about the tough choices and tradeoffs that will be necessary to establish a framework for moving forward. It turns out that the frank conversation about what will truly be needed to deal with the debt that politicians have been afraid to have with their constituents is exactly what people want. As Commission Co-chairman Alan Simpson has said, the public is thirsting for leaders to tell the truth.

One of the biggest lessons from the experience of the Commission is that a proposal to deal with the debt needs to be big and comprehensive in order to succeed politically. When Simpson and Bowles put forward their co-chairmen's proposal to the rest of the commission, Washington insiders were shocked that the plan so aggressively exceeded our mandate. They were sure that the proposal would need to be scaled back to get a majority vote. Indeed, even among commission staff we had started thinking about ways the plan could be softened to get more support.

It turned out that the opposite was true. Commission members responded favorably to the plan because it was bold, and were in near unanimous agreement that the plan should not be watered down. The more comprehensive and larger we made the plan, the easier our job became. The tougher our proposal, the more people came aboard.

A comprehensive approach is necessary not only to match the magnitude of the problem, but to allow for the tradeoffs and balance necessary to reach an agreement. Commission members were willing to take on their sacred cows and fight special interests — but only if they saw others doing the same and if what they were voting for solved the country's problems. Efforts to try to deal with the problem on a piecemeal basis or a proposal to adopt portions of the plan individually will fall short.

Another key lesson is that neither party can fix this problem on its own, and both parties have a responsibility to do their part. Both President Obama and Congressional Republicans have presented plans — and those plans have certainly pushed the debate forward. But both plans have come under intense criticism from the opposing party, and it is clear that neither can earn the type of broad bipartisan support necessary to enact and sustain a credible fiscal plan. Our commission's plan is not ideal from either party's perspective. But if both sides are serious about achieving reform, not just scoring political points or ensuring reelection, they will realize that our plan, or something equally comprehensive, represents the type of principled compromise that is in the country's best interests.

The Simpson-Bowles plan demonstrated that it is possible to put forward a serious, responsible fiscal plan to bring the

debt under control while protecting the priorities and principles of both parties. We can raise revenues in a way that does not increase tax rates and promotes economic growth by removing economic distortions from tax expenditures and reducing marginal tax rates while improving progressivity in the tax code — because these tax expenditures disproportionately benefit upper-income taxpayers. Our work also showed us that it's possible to reform entitlement programs in a way that preserves and even strengthens the safety net for the most vulnerable while achieving significant savings.

Perhaps the biggest reason that the Simpson-Bowles plan has earned so much support is that it presented the issue not as a simple numbers exercise in which everyone fights for their slice of the limited pie, but rather as an issue of putting aside special interests for the greater good of fulfilling the promise of America to give our children and grandchildren a better life. The commission asked Americans to give up something they like to protect the country they love. The response that Al

Erskine have received as they travel the country has shown that the public is ready to meet that challenge.

The impending fiscal cliff — the combination of the across-the-board spending cuts and expiration of the 2001 and 2003 tax cuts and other policies at the end of this year — presents an opportunity for action. While it is true that going over the cliff by allowing the across the board spending cuts to take effect and tax cuts to expire would reduce the deficit, it would do so in a terribly

mindless and economically dangerous way. The Simpson-Bowles plan offers a model for a much more thoughtful and responsible path for dealing with the deficit by replacing the fiscal cliff with a gradual plan to stabilize and reduce the debt over the long term without disrupting the fragile economic recovery in the near term.

Of all the prescriptions in the Commission report, the most pertinent today is the one alluded to in the title: we must act now. The Simpson-Bowles commission demonstrated how it can be done both substantively and politically. Now it is up to the President and Congress to provide leadership to act. **RF**

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Ed Lorenzen is the Executive Director of The Moment of Truth Project, a non-profit, non-partisan effort that seeks to foster honest discussion about the nation's fiscal challenges, the difficult choices that must be made to solve them, and the potential for bipartisan compromise

that can move the debate forward and set our country on a sustainable path.

Avoiding a Global Depression

DAVID M. WALKER

Recently, there has been a great deal of attention focused on the fiscal cliff, the term used to describe the spending cuts and tax increases at the end of fiscal year 2012. The combined effect of the scheduled increase in taxes and reduction in spending totals about \$1 trillion for 2013-2014, and about \$8 trillion over 10 years.

These numbers include, but are not limited to, the expiration of the Bush tax cuts, the Alternative Minimum Tax (AMT) patch, the temporary payroll tax cut, the temporary unemployment benefits extension, the temporary deferral of the Medicare physician payment reductions, and the scheduled sequester (automatic reduction) of defense and other discretionary spending resulting from the embarrassing August 2011 debt ceiling debate.

While the scheduled increase in taxes and reduction in spending would reduce the federal deficit, it would also put our current tenuous economic recovery at risk. In fact, there is a consensus among economists and elected officials that allowing all of the scheduled tax increases and spending cuts to occur would result in a U.S. recession (a reduction in the size of the U.S. economy). This view is shared by the non-partisan Congressional Budget Office (CBO).

Despite this consensus, it is far from clear what the

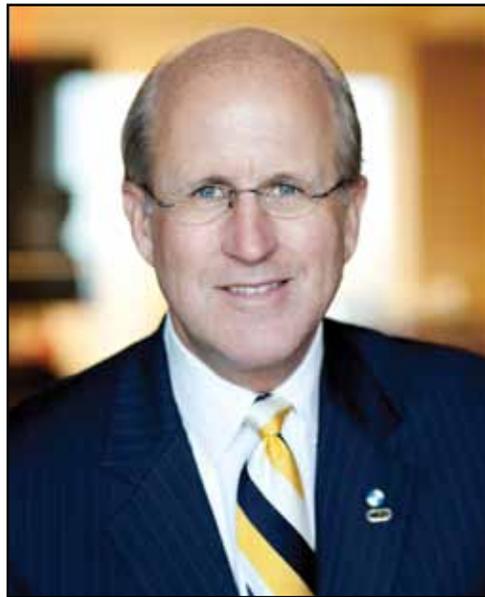
President and the Congress will agree to do to avert the fiscal cliff. The political posturing has already started, and Washington is as dysfunctional as ever.

It seems clear that nothing significant will occur before the November election. At the same time, it

is unclear what will be done during the lame duck session. The result of the November elections will determine the actual nature and timing of congressional action relating to the fiscal cliff.

In my view, while the timing of congressional action may vary, it is likely that the Congress, no matter who holds the majority in the House and Senate, and the President, whoever that may be, will ultimately agree to end, or substantially revise, certain temporary provisions (e.g., payroll tax cuts, unemployment benefits extension) and defer the implementation date of most major expiring provisions and spending reductions (e.g., expiration of the Bush tax cuts and scheduled defense and other spending sequester). These actions will likely be coupled with a commitment to engage in comprehensive social insurance, tax, and

other reforms by a certain date (e.g., September 30, 2013), with automatic enforcement mechanisms (e.g., spending cuts and tax increases) if Congress and the President fail to act.



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While this action will likely avert an immediate recession, if the agreement and related enforcement mechanisms are not viewed as being credible by investors, it could cause a significant disruption in the capital markets. Therefore, it's important that the actions be both credible and effective.

Irrespective of what happens in connection with the fiscal cliff, the Congress and the President need to work together to address the large and growing structural deficits that lie ahead. The truth is, based on fair and consistent accounting, total U.S. government debt/GDP is worse than every major European nation other than Greece. We don't want to follow Greece's example of fiscal irresponsibility, draconian actions, and domestic disturbances.

To put things in perspective, while the National Debt Clock has risen from about \$2.9 trillion when it was unveiled in 1989 to \$5.6 trillion in 2000 and about \$15.9 trillion today, it serves to understate our real federal financial challenge. A much better measure to assess our federal position is to look at total federal liabilities (e.g., public debt, civilian and military pension and retiree health benefits), unfunded social insurance obligations (e.g., Social Security and Medicare) and other commitments and contingencies (e.g., Pension Benefit Guaranty Corporation, FNMA).

When these numbers – drawn from various official government documents -- are totaled, they are expected to be over \$70 trillion by September 30, 2012, and growing by over \$10 million a minute. These figures are the basis of the Comeback America Initiative's new U.S. Financial Burden Barometer (Burden Barometer) and "\$10 Million a Minute" national fiscal responsibility bus tour in September and October. You can find out more at www.10MillionMinute.com.

Given the true size of our challenge and the rate at which our federal financial sinkhole is getting deeper, Washington policymakers need to make real progress to address the nation's structural deficits no later than 2013. These deficits are driven primarily by known demographic trends, rising health care costs, and an overly complex, non-competitive, and outdated tax system.

The needed progress should come in the form of a "grand bargain" that would involve budget reform, social insurance program reforms, reform of the Affordable Care Act, defense and other spending

reductions, and comprehensive tax reform. These efforts should be designed to achieve a reasonable level of debt/GDP (e.g., 60 percent) by a certain date (e.g., 2020). In my view, such a grand bargain should be focused much more on spending reductions than additional revenues. Yes, we can reduce the size of government (spending as a percent of GDP), achieve fiscal sustainability, ensure a secure social safety net, effectively discharge the federal government's constitutional responsibilities, and create a more reasonable and equitable tax system.

Importantly, while enactment of a grand bargain would not reduce the National Debt Clock by even a dollar, it could result in trillions of dollars in reductions in the Burden Barometer and the related rate of increase. As a result, the Burden Barometer should become one of the basic and recurring measures of our fiscal position and progress.

If we fail to achieve meaningful progress to address our structural deficits in 2013, the odds of a U.S. debt crisis will increase significantly. Such a debt crisis would result in a global depression. It would also serve to irreparably harm America's position in the world, employment opportunities, our standard of living at home, our longer-term national security, and even

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our domestic tranquility.

We must not allow this to happen, and it doesn't have to happen. Other countries, such as Australia, Canada, Sweden, and New Zealand, have risen to face their fiscal challenges in the past. If they can do it, we can too. However, to do so we will need extraordinary presidential leadership. We will also need the first three words of the Constitution to come alive – "We the People!"

We the People must make elected officials understand that the political risk of doing nothing is greater than the political risk of making tough choices to help create a better and more sustainable future. I'll do my part; all that I ask is that you do yours. **RF**

The Honorable David M. Walker is the Founder and CEO of the Comeback America Initiative. He previously served as Comptroller General of the United States and head of the U.S. Government Accountability Office.

The Trans-Pacific Partnership: An Opportunity for American Leadership in the Asia-Pacific Economy

PHIL ENGLISH

It's a new trade partnership under negotiation by the United States: potentially larger than NAFTA or a new Doha round, and critical to American prospects for expanded export markets. Yet, it is largely unknown to the American public.

The Trans-Pacific Partnership (TPP) is a strange creation. It is an idea embraced by the Bush Administration at its modest launch, which has blossomed under the Obama Administration into a broadening Asia-Pacific engagement including Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam, along with (recently) Canada and Mexico.

Unlike traditional bilateral free trade agreements, such as the recently approved Bush-negotiated pacts with Korea, Columbia and Panama, the TPP structure moves well beyond dismantling conventional border-related barriers to free trade, and aspires to promote deeper economic integration and convergence by reducing more subtle internal anti-competitive factors. The TPP process is now building to a potential year-end conclusion, but so far with a secret negotiation conducted with minimal public input and, on Capitol Hill, without the traditional delegation of fast track negotiating authority by the United States Congress.

Nevertheless, this obscure negotiation -- ignored in a blizzard of Presidential campaign roughhousing and bad economic news -- represents a huge opportunity and challenge for the U.S. economic leadership in the Asia-Pacific region, and potential access to a robust and dynamic \$20.5 trillion dollar market.

The Trans-Pacific Partnership has the potential to produce a world class agreement to spawn the world's largest free trade zone in a Pacific Rim where local bilateral trade agreements have increasingly limited U.S. market access for agricultural products, manufacturers and services. The Peterson Institute projects that the TPP could produce annual income gains of \$295 billion globally and \$78 billion for the United States -- an economic boost substantially larger than a completed Doha round at the WTO. The TPP has the potential to secure export

markets for American producers increasingly disadvantaged by local competition, as well as products from the European Union and Australia.

For trade policy, the TPP represents an important evolution in the dimensions of free trade agreement negotiations. The negotiation aspires to roll back traditional tariff barriers and quotas, while at the same time promote regulatory and legal coordination in new areas. The negotiations have proceeded for agriculture, financial services, rules of origin, investment, intellectual property, labor and environmental standards, and government procurement, along with less conventional objectives such as competition by state owned enterprises (SOEs), health and safety regulations, and supply chain management. These additional dimensions, coupled with the potential for TPP to continue expanding its membership, give this prospective agreement a special significance in America's international economic policy. The prospect of TPP extended to Columbia, Korea and possibly Japan also raises the stakes and the complexity of the negotiations.

For the United States, the TPP is an enormous potential breakthrough in trade policy and an indispensable theater for American leadership, at a time when our role in global economic policy is under challenge and the competitiveness of our national economy is at risk. The agreement, by including Mexico and Canada, has the potential to modernize NAFTA in a politically

palatable fashion, while promoting an integrated manufacturing supply chain in North America. It offers the prospect of contributing substantial benefits to key sectors of the U.S. economy, including automotive, agriculture, pharmaceuticals and telecommunications, and creating special economic opportunities in key states such as Ohio and California. Strategically, TPP can be an important element in a fundamental rebalancing of U.S. foreign policy, creating a trading network in the Asia Pacific region linked to America, and ratifying a vital



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American presence throughout. At a time when many policy makers are expressing concern about the rising economic profile and trade practices of China, the Trans-Pacific Partnership should provide a healthy counterweight to the Chinese and their own emerging economic networks.

Perhaps most important, the Trans-Pacific Partnership would provide a large and needed boost for rules-based trade in the global economy, at a time when the WTO process appears to have lost critical momentum. As a global economy, American commerce can only flourish under a trading regime that asserts high standards and imposes predictable and mutually beneficial disciplines. American firms and workers can thrive in a competitive marketplace grounded in true competitive advantage, without the arbitrary disadvantage of local parochial barriers or protectionism. The United States would be one of the primary beneficiaries of a stronger, more transparent rules-based global trading system that would minimize favoritism and corruption. A successful TPP would create a strong catalyst to accelerate the evolution of a stronger and more disciplined trading regime consistent with these principles. In other words, it would foster a race to the top.

The prospects for the successful completion of a world class Trans-Pacific Partnership agreement are good, although reportedly some of the most difficult issues are yet to be crystallized. Unlike the Doha round, the TPP has so far been

cast as mutually beneficial to a broad range of trading partners, with substantial benefits offered to both developed and developing nations in the region. Notwithstanding the relative obscurity of TPP negotiations and the lack of public access to texts, the agreement has already stimulated hostility from anti-globalization networks and has been treated with skepticism by parts of organized labor. Without formalized trade promotion authority, the negotiations have given members of Congress comparatively little opportunity for input in the process, although conceptually the TPP has attracted bipartisan support on Capitol Hill.

Ultimately, the Trans-Pacific Partnership may rise or fall on the ability of the next Presidential Administration to navigate it quickly through a deeply divided but generally pro-trade Congress in the aftermath of a deep recession and bitter election. Its benefits to the American economy will reflect the ability of the United States Trade Representative to persuade our trading partners to be ambitious in promoting free trade. **RF**

The Honorable Phil English represented the 3rd District of Pennsylvania in the U.S. House of Representatives from 1995 to 2009. He is currently a senior government relations advisor at Arent Fox, and serves as co-chair of the firm's government relations practice.

It's simple.

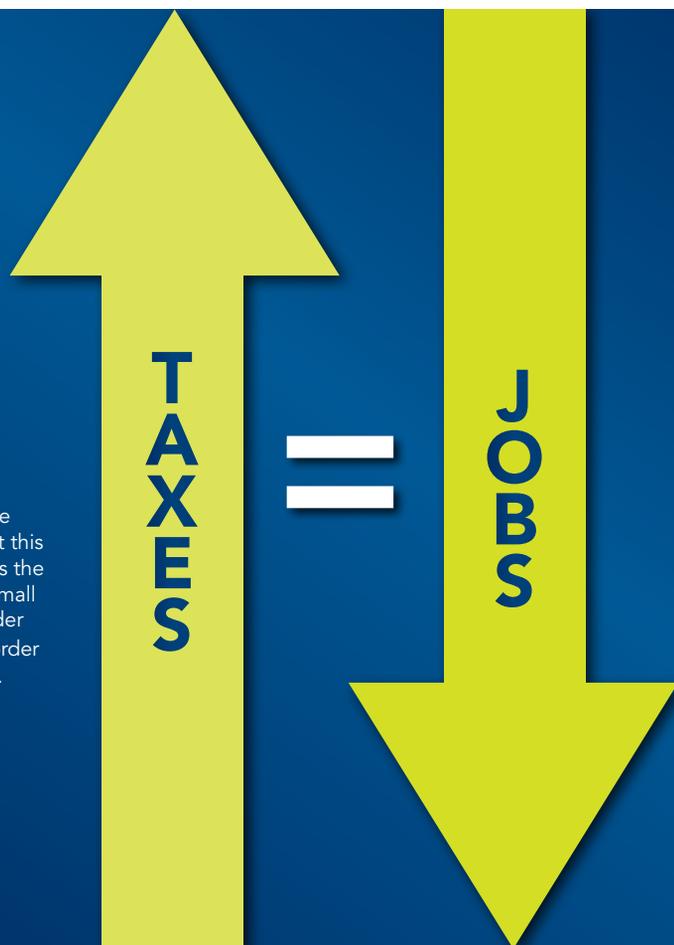
If Congress doesn't act,
taxes on franchise businesses will go up.

The franchise industry is responsible for **1 out of 8 jobs**, and the small business community creates **65% of all net new jobs**. At this time of economic uncertainty, raising taxes that will stifle growth is the opposite of what this country needs. The franchise industry and small business community are relying on certainty in the tax code in order to continue to grow. **It's that simple**, and it has to be done in order to preserve the nearly **18 million jobs** that franchising supports.

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A New Trade Relationship with Europe?

BILL REINSCH

For nearly four years, the Obama Administration's trade policy has been a bit of a mystery. In the beginning, they put then-pending free trade agreements on hold due to opposition from labor, one of their core constituencies, while they searched for a formula that would make the agreements true "21st century" agreements, a term that remained largely undefined. They also took, with business community support, a hard line in the Doha Round of multilateral negotiations, insisting that any agreement provide measurable benefits to American businesses and workers.

The Doha Round's at least temporary failure, along with the ultimate enactment of the FTAs with Colombia, Korea and Panama, created a new policy gap – what to do next. That gap has been partially filled by U.S. participation in the growing Trans-Pacific Partnership (TPP) talks.

The Administration's thought process in entering the TPP talks provides some insight into how it approaches trade policy generally, and it also gives some hints for U.S.-EU talks. What appears to have been the decisive factor in joining TPP was the realization that if we did not, Asians would perceive us as abandoning the region – an uncomfortable thought for someone who aspires to be the "Pacific President." Instead, our participation meshes nicely with the famously clichéd "pivot" to Asia, and it also teaches us an important lesson: this Administration is interested in trade agreements to the extent they reinforce broader geopolitical goals. While one can easily justify TPP in terms of the increased trade and investment it will ultimately provide – and the Administration has occasionally done that – the clear motivation for our involvement has been the larger implications it has for our presence in the region and how it positions us *vis a vis* China, with whom our competition grows daily.

This story is worth telling because of its implications for Europe. The somewhat unexpected outcome of last December's summit was the creation of a High Level Working Group (HLWG) to explore ways to deepen and enhance the transatlantic economic relationship. After some initial

skepticism, largely on the part of negotiators on both sides who have spent years struggling unsuccessfully, momentum began to build, particularly in the EU, for a big deal – one that provides meaningful liberalization of trade and investment rules and significant harmonization of standards and regulations, the latter being by far the bigger issue. The interim HLWG report issued June 19th lays out that possibility in some detail without irrevocably committing to it.

Here again it appears the motivation, probably on both sides, is geopolitical as much as it is economic. The trade issues that divide the U.S. and the EU are not new; many have been under negotiation in one forum or another for years. What is new is our common concern about the competitive challenge posed by rapidly emerging economies, primarily China, not just in terms of imports but also in terms of the latter's desire to develop its own standards and use its market power to persuade others to adopt them, to the advantage of their producers and the detriment of ours. If the EU and the U.S. could agree on a common approach to standards and regulation in areas like health, safety, the environment, and telecommunications,

then the joint market power we represent would be a significant counter-force. In other words, transatlantic trade talks are more about how developed countries compete going forward with rapidly developing ones than they are about the details of bilateral market access – precisely the kind of large geopolitical goal that has been this Administration's focus.

The negotiating process thus far has been colorfully likened to two dogs sniffing at each other. It is apparent that both sides are tempted to pursue an ambitious agreement, but each is suspicious the other cannot deliver on it – not without reason. The "sniffing" has involved identifying red lines – those issues where concessions are politically impossible. For example, the EU assumes the U.S. cannot move on the Jones Act. The U.S. assumes the EU cannot move on GMOs and some other agricultural issues. Both sides are determined not to launch a negotiation doomed from the beginning to fail, so if



Bill Reinsch

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it is determined the “red zones” are too large, we will see a less ambitious negotiation.

The toughest nut to crack involves standards and regulation. While there are exceptions, tariffs are already low, and each side has extensive market access in the other. Further improvements will remove some sectoral irritants but will not change the landscape significantly. In contrast, we have been discussing regulatory harmonization for more than twenty years with little progress. The issues are weedy, which means they usually end up being negotiated by the expert regulators, whose mandates are focused on protecting domestic health and safety and rarely require them to take international considerations into account. At a minimum, it will take creativity, persistence, and high level political pressure to produce results, and that’s only about the process.

Underlying the process is the reality that the two sides have fundamentally different views on some important principles. Three examples: privacy, competition, and precaution.

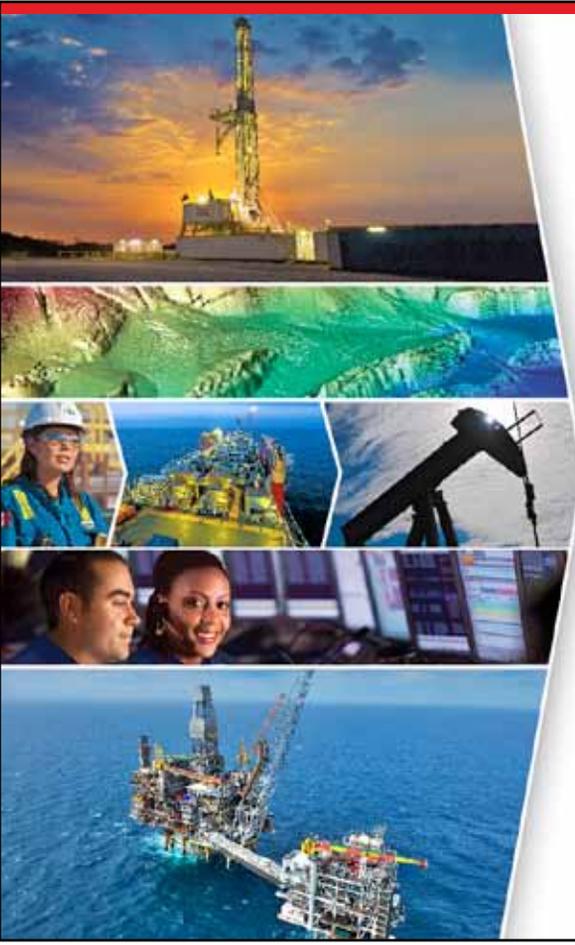
EU concerns about privacy have focused less on government access to personal information and more on private parties’ access to others’ private information. In the U.S., there has been much greater concern about government access. EU antitrust regulators are generally seen as being more interested in competitors than in competition, while the U.S. is the reverse.

EU regulators have long advocated various forms of what is known as the precautionary principle—the idea that things should be prohibited out of precaution, even in the absence of current scientific evidence that they are harmful. The U.S. typically requires sound scientific evidence before taking an action.

These are not minor matters. You can see the differences reflected in the EU Privacy Directive, REACH (the EU chemicals directive), the EU’s rules on GMOs and both sides’ antitrust policies. Creative outside-the-box thinking may be able to paper over some of these differences, but the likelihood is that on many of them, we will ultimately have to agree to disagree which will, in turn, limit the scope of whatever agreement is developed.

Thus, while the geostrategic goal – the need to join together to deal successfully with China – is clear and strong motivation, moving as far in its direction as both sides would like may be difficult. That is what the parties are currently trying to determine, and it is what we will have at least a preliminary answer to later this year. **RF**

Bill Reinsch currently serves as President of the National Foreign Trade Council. He is also Vice Chairman of the U.S.-China Economic and Security Review Commission. Previously, he served as Under Secretary for Export Administration in the U.S. Department of Commerce.



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What we need now:

A Joint Committee on Congressional Reform

BILLY PITTS

The United States is headed full steam into one of the most catastrophic collisions of politics and public policy in decades, maybe in all of our lifetimes. The collision involves a number of legislative trains, all on separate tracks, and all headed for the same intersection at the end of the year -- the Lame Duck session of Congress.

The debt ceiling, expiring tax provisions, a massive sequester of public spending, and unfinished appropriations, all in the absence of a federal budget, are just a few of the governmental failures we will face. These critical public policy issues all flow from our government's authority to tax and spend -- what is reverently referred to as the "power of the purse." James Madison characterized this power in Federalist No. 58 as "the most complete and effectual weapon with which any constitution can arm the immediate representatives of the people."

Unfortunately, in recent years it seems that we have turned this weapon on ourselves. The pundits blame partisanship for the current political dysfunction and the winner-take-all mentality of Republican and Democratic legislators. While partisanship has clearly risen, one of the more chronic problems with congressional decision-making in recent years is procedural dysfunction. Indeed, many of the crises we now face can be traced back to the manner in which Congress has exercised -- or failed to exercise -- its most basic Constitutional responsibilities with regard to policy and spending.

Congress has continually failed to authorize and reauthorize federal programs in a timely manner and sometimes not at all, leaving appropriators with the

opportunity to overextend their authority and create and modify programs rather than just fund them. Appropriations are almost always late and bundled at the last minute prior to the end of the fiscal year and now routinely done without any budget in place.

To address these failures, Congress needs to establish a new Joint Committee on Congressional Reform to examine what have become structural procedural deficiencies in the manner in which Congress exercises its "power of the purse." This Joint Committee would consider and recommend changes in rules and in law that would affect how Congress responds and reacts, in a timelier manner, to dramatic changes in the economic conditions. The Committee would also examine the extent to which Congress has strayed from past practices and whether new initiatives should be undertaken to return the legislative process back to its Constitutional roots and democratic framework.

Beyond this, the Committee could recommend procedures designed to preserve the prerogatives of the Legislative Branch to prohibit, in the words of the General Accounting

Office in 1962, "executive officers, unless otherwise authorized by law, from...involving the Government in obligations for expenditures or liabilities beyond those contemplated and authorized within the amount of the appropriation under which they are made."

There are four important actions that the Committee could consider to potentially achieve these ends, or at a minimum, begin the process of discussion:



Billy Pitts

While partisanship has clearly risen, one of the more chronic problems with congressional decision-making in recent years is procedural dysfunction.

1. *Changing the start of the fiscal year to January 15th* -- Prior to 1974 and the enactment of the Congressional Budget and Impoundment Control Act, the fiscal year began in July. But the Budget Act changed this to October, beginning in 1976, with the intent being to “provide more time for appropriations bills” after congressional budgets are considered and resolved.

As it has turned out, the current October 1st start of the fiscal year does not provide enough time to act on many budget items, given its proximity to the annual Congressional August recess. The current start of the fiscal year also doesn’t provide the President with much opportunity to act on his February budget submission items, such as proposed rescissions of current spending, because the fiscal year is nearly half over by the time any action might be taken.

Changing the start of the fiscal year from October 1st to January 15th would allow more time for Congress to act on the 12 individual appropriations bills. The time for the President to submit his budget would also need to be changed to mid-February.

2. *Instituting “Biennial Budget Resolutions”* – Since the Congressional Budget Process was put in place in 1974, the Congress has, with increasing frequency, failed to separately enact individual appropriation bills. Budget resolutions during election years have become especially harder to adopt and reconcile between the two Houses. In many instances, they are ignored altogether.

A two-year budget process would allow more time to act on individual appropriations, and to complete any proposed reconciliation instructions. If the Congress determines that the economy dictates the need to revise their budget, the Budget Act allows additional resolutions to revise the last adopted budget pursuant to section 304 of the Act.

3. *Strengthening the Anti-Deficiency Act* – Congress’ power of the purse is set forth in Article I, section 9 of the Constitution, which states: “No money shall be drawn from the Treasury but in consequence of appropriations made by law...” In the face of encroaching Executive authority, Congress has over time passed and updated the Anti-Deficiency Act. Many believe this to be the Congress’s greatest check on the power of the Executive Branch.

To that end, the Act should be updated again to

better define and limit Executive Agency discretionary excesses particularly in the absence of any authorizing language in law. Incentives should be built in to force the authorizing committees to decide whether programs should in fact be reauthorized, changed, or eliminated.

4. *Strengthening and enforcing rules addressing the conferencing of appropriations between the House and Senate* – For more than a century, congressional consideration of appropriations bills followed a traditional and predictable path. The House and Senate would meet in a conference committee, the bills would be reviewed paragraph by paragraph, and “amendments reported in disagreement” would be separated out to for further discussion and review. This detailed review enabled Members to fully engage in the legislative process, and helped ensure that policy changes -- such as adding a new law or funding a new program that hadn’t been authorized -- were not slipped into appropriation bills without the opportunity for individual votes. In short, it made for good legislation.

For the past two decades, the path followed by appropriations bills has been anything but traditional. In fact, the current process -- which has given birth to that legislative monstrosity known as “The Omnibus” -- is a circumvention of established rules and procedures that were designed to place policy and spending on different

tracks. It has forced Members and staff to address differences out of the public view, and has resulted in the “ping ponging” of major legislation back and forth across the Capitol. When the bill is finally considered, the rules have usually been waived and only one vote allowed, usually just before recess when time has run out.

Reforming this process and returning appropriations it to its traditional path of consideration would not only restore the Members’ right and responsibility to fully participate in the legislative process, but restore the authorizing committees to their rightful place as the shapers of public policy. In the process, it would also help restore to the appropriations process a degree of transparency, accountability, and effectiveness – three principles that have been lacking in recent years, but ones that will be essential if the budget challenges we face are to be overcome. **RF**

Billy Pitts is a former House Leadership staffer and serves as a member of The Ripon Forum’s editorial board.

To address these failures, Congress needs to establish a new Joint Committee on Congressional Reform to examine what have become structural procedural deficiencies in the manner in which Congress exercises its “power of the purse.”

The Edge of the Fiscal Cliff

STEVE CALDEIRA

As Congress and the President debate ways to keep America from going over a fiscal cliff, it is critical nothing be done in the meantime that would force the American people closer to the edge.

Take the President's recent proposal to let the current tax rates expire next year on franchise small business owners. This proposal, which is supported by many Democrats in Congress, will have dramatically negative ramifications on the ability of prospective and existing small business owners and investors to create jobs.

Entrepreneurs use the franchise business model to create one out of eight private sector jobs and 3.2 percent of U.S. Gross Domestic Product. Indeed, franchisees are proven job creators. They are men and women who take a tremendous amount of risk by using their life savings and taking out loans to start new business ventures, often times generating only a small amount of cash flow. Their personal sweat equity is honest and earned, and many franchise owners do not take a salary, but instead reinvest their profits to expand their enterprises, creating more new jobs by opening additional stores. Raising taxes will affect the bottom line and profits of franchise business owners.

It is becoming increasingly difficult for prospective investors to get into franchising or expand their operations. Why? While access to capital is slowly improving for existing business owners, our industry still faces limited access to capital for new business start-ups. Our businesses also face new health care regulations and the uncertainty of the "fiscal cliff" at the end of this year. As tax hikes loom, the proposal to extend the 2001/2003 tax cuts only to those with income below \$200,000/\$250,000 would make the business environment just that much more difficult for small business owners who are at the heart of this critically important debate.

Under this proposal, the taxes for many of IFA's members would be dramatically increased on January 1, 2013. More than 80 percent of IFA's members file their taxes as LLCs, partnerships, s-corporations or sole proprietorships. They do not pay the corporate income tax. Instead, they declare their business profits on the owner's personal income tax return and are taxed at the personal income tax rate. It is very difficult to plan for

the future when decisions on how to organize and grow the business are based, in part, on tax ramifications. The Joint Committee on Taxation recently estimated



Steve Caldeira

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that 3.5 percent of individual taxpayers with business income would fall in the tax brackets that would rise under this proposal. This is where a significant amount of the job creation in the small business community is derived, as these are the most successful multi-unit, multi-concept franchisees, that are creating the majority of new jobs, and they create them faster than other types of business owners.

Franchising is a proven, structured and scalable business model and our members need certainty in the tax code, and soon. Tax hikes are looming. Franchisees and franchisors need to be able to plan for future growth.

We need comprehensive tax reform at both the corporate and individual levels. We have supported many initiatives of the current Administration, including making the largest private sector

commitment to hiring veterans, military spouses and wounded warriors, and the Small Business Jobs Act of 2010.

However, the administration's current proposals on taxes are misguided and will crush the small business community, greatly inhibiting growth in the franchise sector. We respectfully call on the President

and Congress to begin a true bipartisan effort to have a thoughtful, comprehensive tax reform discussion that addresses both corporate and individual tax rates as soon as possible.

A full economic recovery in this country, supported by small

businesses which create 65 percent of all net new jobs, depends on it.

RF

Stephen J. Caldeira is the President & CEO of the International Franchise Association.

We need comprehensive tax reform at both the corporate and individual levels.

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Seven Habits of Highly Effective REPUBLICAN GOVERNORS

GEORGE E. HALE

Governors face big challenges. Economic growth remains sluggish. Roads and bridges are deteriorating. Health care costs compound at double-digit rates. Public schools don't deliver needed results. Multibillion-dollar budget gaps loom. And quick fixes – whether it is reducing pension contributions, depleting rainy day funds, relying on federal money, or raising taxes -- no longer work.

So what makes a governor a highly effective leader? Formal powers mean little. They help, but don't guarantee success. New Jersey's governors are among the most powerful. Nonetheless, voters sent Jon Corzine packing after one term. Despite low rankings of formal powers, South Carolina Republican Carroll Campbell stood out as a highly effective governor. Informal powers and personal attributes make a difference.

In 2010, voters elected 37 governors. It is probably too early to evaluate their performance. In November, voters will select another 11 governors. So this is a good time to look at how past governors have handled big challenges.

With apologies to the late Steven Covey's famous book, I call them the seven habits of highly effective governors.

#1 Be the hedgehog, not the fox

Jim Collins' bestseller *Good to Great* paraphrases insights from philosopher Isaiah Berlin: "The fox knows many things, but the hedgehog knows one big thing." Leaders, who build great companies, tend to be hedgehogs.

Many governors are fox-like, trying to be all things to all people. And they confront many issues. Yet hedgehogs who focus on one big idea can make a big impact. Thirty years ago, Pete du Pont rewrote Delaware's fiscal rules producing eight balanced

budgets, improved bond ratings, and repeated income tax reductions. More recently, Michigan's John Engler brought governmental spending under control.

A couple of current governors show a laser-like focus that is yielding results. Indiana's Mitch Daniels' clear priorities prompted *Governing* magazine to label him "the Privatizer in Chief." Chris Christie, determined to repair New Jersey's finances, is challenging union excesses, shutting down unaffordable projects, and calling to account inefficient local governments.

When governors try to do too much, they quickly learn they can't. Governor du Pont notes, "Being governor is the greatest job in the world. You can do anything you want – but you can't do everything." The governor's role, says Tennessee's Lamar Alexander, is to "see the state's few most urgent needs, develop strategies to address them, and persuade at least half of the people that he is right."

#2 People are key

Here's another suggestion from Collins: "Do whatever you can to get the right people on the bus, the wrong people off the bus and the right people into the right seats."

Governors must appoint skilled leaders who share their vision. Professor Kevin Smith says Engler chose people "with a strong ideological commitment to limited government. These appointees helped him carry out his desire to shrink the state's government." Mr. du Pont's nationwide talent search, a top aide recalls: "was really, really important . . . to this day Pete will tell you (it was) an important outside-the-box decision that he made before he ran."

Governors must fix mistakes quickly. Former Pennsylvania Governor Dick Thornburgh recalls three appointments that didn't work out: "My mistake in each case was hiring the resume rather than the person." Failing to replace weak appointees is costly.



Thornburgh succeeded Milton Shapp, who found “many of his appointments turned into disasters of his own making” as indictments rocked his cabinet.

#3 Don't surprise voters

Voters are smart. They expect Republicans to act like Republicans. One study finds “Republican gubernatorial candidates lose votes if their party is responsible for unanticipated increases in the size of the state budget; Democrats do not and, indeed, may be rewarded for small increases.” However, voters don't like surprises. “The incumbent governor's party is punished for failing to maintain fiscal balance.”

GOP leaders should take heart. When Republicans successfully tackle fiscal challenges, voters reward them. Governor du Pont won a second term with 71 percent of the vote. After winning initially by only 17,000 votes, Mr. Engler later enjoyed 61 percent and 62 percent majorities. Governor Daniels' percentage climbed from 53 to 58 in 2008.

Both parties suffer, however, when voters are surprised by deficits or sudden tax increases. In 1976 Mr. du Pont toppled a governor who lost control of spending and taxes, and Chris Christie ousted Jon Corzine after New Jersey's budget went haywire.

#4 Grow the economy, not the government

Private sector executives face competition at home and abroad. So do states. Governors must give businesses confidence in the direction of government taxing and spending. Inc. magazine wrote, “The best governors for business are the least partisan. They are often Republicans in traditionally liberal states or Democrats in conservative states. They collaborate with legislators and business leaders to reach consensus on even tough questions.”

South Carolina's Carroll Campbell worked effectively with Democrats to lure BMW and other manufacturing facilities to the state despite the fact that the state provides a textbook example of a “weak” governor.

In Delaware, Mr. du Pont obtained buy-in from Democrat business leaders and legislators to overhaul

banking laws in a move that created 40,000 jobs. Later, Mike Castle continued bipartisan economic development and cut the income tax three times.

#5 Win/win with the Legislature

Paradoxically, one prerequisite for working with legislators is to challenge the status quo. Mr. du Pont vetoed the budget his first year. It was overridden, but it represented a turning point. He observed: “All of a sudden, all people in Delaware said this administration is serious.” Mr. Thornburgh's 1982 line-item vetoes, including legislative funding, forced Democrats to scale back spending. “Being more respected than liked was largely successful,” he wrote.

After earning respect, it is critical to establish working relationships. A legislative veteran and a former Lt. Governor, Delaware's Castle registered overwhelming success with his legislative agenda. Moreover, Engler's legislative experience translated into mastery in forging workable, legislative deals.

#6 Prepare for a middle-distance race

Governors are often seen as sprinters, elected to get things done right now. Alternatively, government insiders are marathon runners, who are confident they can outlast governors. Sprinters press for quick results by cherry-picking easy targets, creating new programs or ducking tough issues. Yet big changes rarely come quickly.

Instead, governors should run a middle-distance race. Four years is not enough time to achieve major changes. Ironically, change requires stability in the top jobs. For example, Thornburgh's transportation secretary, Tom Larson, engineered major reforms during eight years of sustained effort. Similarly, Indiana's Daniels is finishing strong, running through the tape.

One aspect of sustaining effective leadership is responding to crises, those land mines that can either blow up the governor's credibility or enhance their standing. Here the gold standard is Dick Thornburgh, who skillfully faced the Three Mile Island crisis as a rookie. More recently, Frank Keating's resolve after the Oklahoma City bombings and Bobby Jindal's hands-on leadership after the BP oil spill marked them both as leaders.



**GOP leaders should take heart.
When Republicans successfully
tackle fiscal challenges, voters
reward them.**

#7 Ethics matters

Scandal can be very damaging. Pennsylvania's Corbett, a former attorney general, entered office attuned to this issue, having prosecuted numerous state officials. Mr. Thornburgh also prosecuted corrupt officials as a U.S. attorney; he was never tainted by scandal.

Missteps can derail a governor's agenda. Ohio's Bob Taft crippled himself with ethical lapses, such as gifts and golf outings from lobbyists. Similarly, Shapp lost effectiveness because of corruption by three cabinet members. Others have defaulted on promises to serve the public. Infidelities and flawed judgment crippled South Carolina's Mark Sanford and aborted Eliot Spitzer's tenure.

Often criminal misconduct is the culprit. Rod Blagojevich was impeached in 2009 and later sentenced for trying to sell the Senate seat vacated by President Obama. Twenty-three times since 1970 governors have been removed from office by criminal verdicts, impeachment or a scandal related resignation.

Most governors steer clear of ethical booby traps. As a cabinet secretary in Delaware, I awarded hundreds of contracts, and Governor Castle never once intervened or inquired about the rationale for awarding a contract. If governors need eight years to make a difference, ethical and legal scandals must be avoided.

Conclusion

Some governors like Blagojevich, Sanford, and Corzine are spectacular failures. While most governors establish competency, still 25 percent of incumbents are defeated running for reelection. Yet only a few governors stand out as highly effective ones who make a lasting difference.

The highly effective governors have in common most or all of the seven habits outlined above, while exhibiting strong character, a steady sense of direction and deft political skills.

In a couple of years, we'll have a good fix on whether any of the current governors might join their ranks. **RF**



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VIRGINIA

in the Balance

JESSE RICHMAN

During the Olympic opening ceremonies, my local NBC station aired advertisements paid for by a Senate candidate, a presidential candidate, and an outside group interested in influencing the presidential election. Each ran multiple times. Even for those like me who enjoy watching political advertisements, the 2012 elections in Virginia seem likely to offer saturation and satiation. Virginia's swing-state presidential contest is central to multiple victory routes for both candidates. A knife-edge close Senate contest could simultaneously determine majority control of that chamber.

Polls in the presidential contest are nearly tied. Republican Mitt Romney led for a time in the fall of 2011; President Barack Obama led for much of the spring of 2012. From April through mid-July 2012, Obama led Romney in Virginia polls by an average of 2.3 percent, but in late July 2012 the polls closed toward parity. Grassroots organization, campaign appearance, and advertising arms races were rapidly accelerating throughout the state by mid-summer as the candidates competed for attention and votes.

Virginia politics is complicated by plural and conflicting influences. Virginia's conservative southern roots favor Republicans, but suburban transplants are vital for victory in populous northern Virginia. The large African American population remains enthusiastic about and supportive of Obama, but too much racial polarization in the race could favor Romney. Virginia has a relatively robust employment rate, but economic concerns persist. As in much of the rest of the country, polls suggest a majority of Virginians favor spending cuts as a solution to the deficit, yet sequestering defense in particular would exact disproportionate harm on the state economy.

Jobs and the economy remain a central issue for Virginia voters, and a move toward more conservative economic policies was favored by 62 percent of respondents in the most recent Old Dominion University / Virginian Pilot poll conducted May-June 2012 of 776 registered and likely voters. The solid majority in favor of conservative economic policy is less of

an advantage for Romney than one might expect, however. In the poll, Romney received the support of only two thirds (68%) of the respondents who thought economic policy should become more conservative. In part, Romney's weakness among economic conservatives reflects cross-cutting divisions in the electorate. About one tenth of the poll respondents held libertarian views favoring more conservative economic policies yet simultaneously more liberal social policies (e.g. abortion and gay marriage). Obama is favored two to one over Romney among these "libertarian" respondents.

Curiously, Obama's coalition contains incompatible opposites. In addition to libertarian types, Obama also won the support of nearly three quarters of those seeking a more liberal economic policy paired with a more conservative social policy according to the poll. Consolidating support among economic conservatives while finding ways to exploit divisions in Obama's coalition could be a route to victory for Romney.

One wild card in the Virginia presidential contest is Constitution Party candidate (and former VA 5th District Congressman) Virgil Goode. Goode's platform is broadly conservative, although his position against free trade agreements has the potential to draw support from voters dissatisfied with the trade actions and positions of both parties. Goode

appears poised to qualify for ballot access, as his campaign claimed on August 1, 2012 to have collected more than 18 thousand signatures, nearly twice the ten thousand required under Virginia law.

Goode has the potential to spoil Romney's electoral prospects. He retains a base of support in the 5th district, although he is relatively unknown in other parts of the state. Polls have put Goode at 5 to 9 percent of the statewide vote if included on the ballot, with most of those votes coming from Romney. As when Kenny Golden ran as a conservative anti-free-trade independent in the VA 2nd district in 2010, some political operatives who favor the Democratic side might be tempted to promote Goode as a way to draw votes from



Virginia's swing-state presidential contest is central to multiple victory routes for both candidates.

Romney. Golden won 4.3 percent of that vote. Yet even if Goode wins several percent of the vote, it is conceivable that Romney could still prevail. In spite of Golden, Rigell won. Romney could too.

Like the presidential race, the Senate contest between Tim Kaine and George Allen is knife-edge close, and negative ads are proliferating as each candidate seeks to remind voters of the other's real or perceived failings. In an average of all polls conducted from April through mid-July 2012, Allen had a 0.6 percent lead over Kaine. Because Kaine is polling slightly behind Obama, Allen still might manage a win even if Obama prevails in Virginia.

Despite of the extremely close contests up-ballot, most House of Representatives races in Virginia are predictable and unlikely to be close. In part this is because the electoral districts were carefully crafted by the legislature, but Virginians also have surprisingly positive views of their incumbent members of Congress. In the May-June 2012 Old Dominion University/Virginian Pilot poll, 49.7 percent of respondents indicated that they believed their current representative deserved reelection, while only 24.4 percent of respondents thought their current representative did not deserve reelection. The only House race exhibiting serious competition is the 2nd district which changed party control in both 2008 and 2010. Republican incumbent Scott Rigell and Democratic challenger Paul Hirschbiel have

matched each other in fundraising. A wave election could clearly shift the district to Hirschbiel, but by many accounts Rigell has done a good job of establishing himself in the district and can expect the customary "sophomore surge."

One particular challenge for the House candidates will be to develop an independent image beyond the shadow of the presidential and senatorial contests. The sheer volume of political advertising by October is likely to be extreme, a cacophony of candidate, party, and super-PAC claims. If it becomes impossible for House campaigns to get their message through above the din of competing commercials, coattails may drive the House vote.

Virginia politics has proved fascinating but unstable over the last few years. Democratic waves through 2008 gave way to a Republican tide from 2009 through 2011. The only thing certain about 2012 is that neither party can take Virginia for granted. **RF**



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ROBY, BIGGERT & CAPITO DISCUSS BUDGET, BIPARTISANSHIP, AND OTHER KEY ISSUES AT RIPON SOCIETY BREAKFAST

“We need more women in Congress, because we offer a perspective that is vitally important to the American people and our economy.”

WASHINGTON, DC, July 23, 2012 – The Ripon Society hosted a breakfast discussion this past Thursday morning with three Republican women serving in the U.S. House of Representatives, who not only discussed budget reform, bipartisanship, and other key issues being debated on Capitol Hill, but shared their thoughts on why they would like to see more women serving alongside them in Congress, as well.

The discussion was moderated by The Honorable Connie Morella, who represented Maryland’s 8th District in Congress from 1987 to 2003, and later served as Ambassador to the Organization for Economic Cooperation and Development from 2003 to 2007. Participating in the discussion were Representatives Shelley Moore Capito

(WV-2), Judy Biggert (IL-13), and Martha Roby (AL-2), who began her remarks by expressing her belief that the focus on women’s issues is sometimes too narrow and by recounting an exchange she had on the topic with the House Majority Leader earlier this year.

“I had a conversation with Eric Cantor not too long ago during the VAWA [Violence Against Women Act] debate,” the Alabama Republican stated. “And I said: ‘Eric, I’ve just really got to get this off my chest. We have to be very careful here. We don’t have women’s issues. The same issues that are important to you -- I promise you -- are important to me. I go to the grocery store. I fill my car up with gas. These things are important to me as well.’ Sometimes, we understand those

issues better. I think it is so important that we need women in Congress. We need more women in Congress, because we offer a perspective that is vitally important to the American people and our economy.

“Part of that is sitting around the kitchen table and looking at your finances and figuring out what you make, and then how much can you spend, and how much do you want to save. What I quickly learned once I came here is that Washington does not work that way. I served on a nine-member city council for almost two terms, and we did it by law! We had to balance our budget. We couldn’t spend more than we brought in. And if we did, we were in big trouble.”

To help address this problem on the federal level, Roby said she has



Former Representative and Ambassador Connie Morella shares a laugh with Representative Martha Roby, Judy Biggert and Shelley Moore Capitol at the Ripon Society breakfast discussion on July 22, 2012.

introduced *The Honest Budget Act*, a reform bill that would eliminate many of the gimmicks that have been part of the budget process.

Among other things, the legislation would: make it more difficult to pass appropriation bills without first approving a budget; tighten rules about using ‘emergency designations’ and ‘disaster designations’ to justify off-budget spending; reveal both the real cost and the real commitment on what the federal government is spending; and, prevent Congress from relying on phony rescissions, or claiming savings, unless the savings are real and genuine.

“If we don’t spend money that has been authorized, then we turn around and use it as an offset for deficit spending,” Roby remarked, referring to one current particularly egregious practice in federal budgeting. “Outside of the major mandatory spending issues that we have, that’s how we’ve gotten into this mess over the course of years. What this bill attempts to do is alleviate the ability to use that kind of gimmickry to the American people. It’s truth – honesty – in saying, ‘This is what we have. This is what we can spend. And this is how we save.’ I think the American people are really crying out for that.”

In her remarks following Congresswoman Roby, Congresswoman Biggert discussed something else that, she said, the American people are crying out for – bipartisanship.

“I think the American people are really concerned about job creation, economic growth, and debt. But the third thing I hear from people at home is, ‘Why can’t you get together and solve this problem?’” To that end, Biggert pointed to recently enacted legislation to reauthorize the National Flood Insurance Program as an example of a bill on which Republicans and Democrats did come together for the common good.

Biggert authored the legislation and chairs the Financial Services

Subcommittee on Insurance, Housing and Community Opportunity, which has oversight over NFIP. According to Biggert, the legislation – which would reauthorize NFIP for five years and modernize a program that was operating with a \$17 billion deficit – was not only the byproduct of extensive negotiations between the two parties, but the result of her collaboration with Democratic Representative Maxine Waters (CA-35), who serves on the Subcommittee.

“I just think it takes a lot of working together,” Biggert observed. “Maybe that is what we really need to look at. Politics is the art of the possible. It is also the compromise that really is needed. A couple of years ago, I started the Financial

“I said: ‘Eric, I’ve just really got to get this off my chest. We have to be very careful here. We don’t have women’s issues. The same issues that are important to you -- I promise you -- are important to me.’”

Rep. Martha Roby

Literacy Caucus. I did that because I thought some of our Members needed Economics 101 – even on the Financial Services Committee! So I started that caucus. I think we need another caucus called ‘Negotiations,’ because I think we really have to work out, sit down and do that if we’re really to find all the answers. It’s a real challenge. But negotiations are so important in working across the aisle.”

Congresswoman Capito echoed her colleague’s remarks.

“I think Judy is right,” the West Virginia Representative stated. “The tone sets a lot of how we’re able to work together ... Young people just aren’t paying attention anymore. They’re not going to watch us bicker and stab a knife and denigrate. It’s just unappealing to them to want to get into the political process if this is the way it moves forward.”

Returning to the topic of women’s issues, Capito pointed to her work as

Chairwoman of the Financial Services Subcommittee on Financial Institutions and Consumer Credit as an area where Congress can – and must – make a difference in this regard.

“I think there’s nothing more critical to a woman or family than financial services,” the Chairwoman stated. “Access to credit, being able to afford not just food, but an education for your child, a new car, in my case, health care for elderly parents, all of the stresses and strains – a lot of that falls on the woman.” Citing a recent study which revealed an increasing number of children are being raised in households without two parents, Capito continued: “The family structure in this country is changing. Higher percentages of children are being born into single-parent families. Obviously, that is a woman – the woman who is head of the household without support – and there are all sorts of issues surrounding that. But economically, that presents enormous challenges to this next generation of families.”

Another challenge many women currently face has to do with credit, Capito noted. This challenge stems from a regulation contained in the Credit CARD Act of 2009 that can deny credit to a woman who stays at home if she does not have her own source of income.

“I stayed at home with my children for 16 years and earned nothing,” Capito stated, recalling her own experience as a stay-at-home Mom. “During the 16 years I was staying home with them, I had a lot of fun and earned a lot of great relationships with them and all things that you can’t put a price tag on. I loved it. But if I were to have applied for a credit card during that period of time, I would not have been able to get a credit card in my own name because I would have had no ability to repay.”

“So we’re trying to fix this. We’re pressing the CFPB [Consumer Financial Protection Bureau] to redo the rule, to look at the household income, to have some other way of looking at it so that the establishment of credit in your own name is available.”

RF

Ripon Profile



Name: Luis G. Fortuño

Occupation: Governor of Puerto Rico

You served in Congress before being elected Governor. What are the main differences between the two jobs? Service in Congress provides the opportunity to contribute to an historic and vital national process that helps shape our public policy and discourse. The best aspect of my current job is the ability to drive results, and I would say that is a belief shared by other governors around the country. As Governor, I can brainstorm with my team on a problem in the morning, announce a plan of action that day, and implement solutions immediately. This type of results-driven government is why you see a lion's share of the fiscal reforms and economic innovation happening at the state level.

As Governor, you've had considerable success reducing Puerto Rico's budget deficit. What advice would you have for your former colleagues in Congress as they work to achieve that goal? The solutions to the fiscal challenges we face, both as a nation and as states and territories, are not easy but they are absolutely necessary if we are to correct our country's trajectory. I think we need to give the American people credit for understanding that big problems require tough decisions, just as they sit around the kitchen table and make similar tough calls about their family budgets. So level with them. Explain exactly what we face and what must be done. Act quickly and comprehensively. Most importantly, lay out a clear vision of where these tough decisions now will lead – a reinvigorated future for America.

How would you rate Republican efforts to win the support of Hispanic voters? What more would you like to see the party do in this regard? Hispanic voters make decisions in elections the same way as every other American voter – ideas, principles and leadership. We are socially conservative, fiscally conservative, and we want lower taxes. Education is key to us, and we want our small and medium size businesses to flourish. Those are Republican values. Our party doesn't have to run away from these values and principles; in fact, we must underscore them.

But we also need to tame the tenor used in the public discourse, especially on some issues like immigration, that pushes away the Hispanic community. We must talk to Hispanic voters about our ideas and principles, about the kitchen table issues and the aspirations of every American family for good jobs, a strong economy, lower taxes, a solid education system and the best possible future for their children.

What's more important in politics -- the power to persuade or the ability to inspire? One without the other is a common shortcoming in the current state of American politics. True leadership lies in the ability to articulate an aspirational vision and mobilize people toward the pursuit of that vision. When both abilities converge, true transformation is possible.

Who is your hero today? Even today, I remain a student of Ronald Reagan, just as I was in 1980, when I was attending college in D.C. and stuffing envelopes in his campaign. At the time, he said that Hispanics are Republicans, they just don't know it. He actually brought many of us into the party.

In my first year in office, when we had inherited a government teetering on the brink of bankruptcy and the toughest fiscal choices had to be made, I remembered how tough it was for President Reagan at the beginning of his presidency. But he made principled decisions and stayed the course -- and led the country into an unrivaled era of prosperity. That is why his example of leadership has and will continue to inspire so many in public life.

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